

Message Text

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PAGE 01 STATE 052899
ORIGIN EB-08

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DRAFTED BY EB/OT/STA:MCJONES
APPROVED BY EB/OT/STA:JSSPIRO
TREASURY:RSELF
ARA/ECA:TSHUGART
ARA/ECP:WDBURSON

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FM SECSTATE WASHDC
TO AMEMBASSY BRASILIA IMMEDIATE
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652:N/A

TAGS: ETRD, BR

SUBJECT:COUNTERVAILING DUTY INVESTIGATIONS -- SCISSORS AND
SHEARS AND COTTON YARN FROM BRAZIL

1. FOLLOWING IS THE TEXT OF A LETTER DATED MARCH 9, 1977,
FROM TREASURY DEPUTY ASSISTANT SECRETARY PETER O. SUCHMAN
TO DR. FRANCISCO DORNELLES, CONCERNING TECHNICAL ASPECTS
OF THE COUNTERVAILING DUTY INVESTIGATION OF SCISSORS AND
SHEARS AND THE AMOUNT OF THE DUTY TO BE ASSESSED ON
COTTON YARN.
BEGIN TEXT
DEAR DR. DORNELLES:

THIS IS IN REPLY TO YOUR LETTER DATED FEBRUARY 16, 1977,
IN WHICH YOU RAISE A QUESTION ABOUT THE CALCULATION OF
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THE COUNTERVAILING DUTY RATE ON SCISSORS AND SHEARS FROM
BRAZIL.

AS YOU KNOW, OUR FINAL COUNTERVAILING DUTY DETERMINATION
THAT APPEARED IN THE FEDERAL REGISTER OF FEBRUARY 11,
1977, WAS IN PART BASED ON THE ABSENCE OF INFORMATION
RELATING TO THE ISSUE OF WHETHER IMPORTED CAPITAL GOODS

USED BY MANUFACTURES/EXPORTS IN THE PRODUCTION OF

SCISSORS AND SHEARS WERE EXEMPT FROM IMPORT DUTIES AND CERTAIN INDIRECT TAXES. ON THE BASIS OF THE STATEMENT IN YOUR FEBRUARY 16 LETTER THAT THE FIRM ZIVI, S.A. IS NOT RECEIVING ANY BENEFIT FROM THE EXEMPTION OF MACHINERY FROM IMPORT DUTIES, THE COUNTERVAILING DUTY WILL NOT INCLUDE ALLEGED BENEFITS UNDER THIS PROGRAM.

YOU MENTIONED IN YOUR LETTER THAT OUR CALCULATIONS APPEAR TO INCLUDE AN INCOME TAX EXEMPTION BENEFIT OF 2.30 PERCENT. ACTUALLY, OUR ANALYSIS SHOWS AN INCOME TAX EXEMPTION BENEFIT OF 1.19 PERCENT WHICH IS ARRIVED AT BY CALCULATING ONLY THE FORGIVENESS OF TAXES ON PROFITS LESS UTILIZED AND UNUTILIZED CREDITS. AS YOU KNOW, WE DO NOT AGREE WITH THE RECAPTURE ARGUMENT, BUT HAVE IN THE PAST NOT INCLUDED AS AN ELEMENT OF SUBSIDIZATION THE EXEMPTION OF INCOME TAXES ON CREDITS. IN THIS CASE CALCULATING OUR WAY RESULTS IN A SUBSIDY FROM THE THREE ELEMENTS OF IPI, ICM AND TAX EXEMPTION OF 14.53 PERCENT. YOUR CALCULATION RESULTED IN A 11.4 PERCENT BENEFIT FROM THESE PROGRAMS.

REGARDING ANOTHER ELEMENT IN THE CALCULATION, IT HAS COME TO OUR ATTENTION THAT THE COMMERCIAL INTEREST RATE FOR LOANS IN BRAZIL MAY NO LONGER BE 19.2 PERCENT, THE FIGURE USED IN THE HANDBAGS AND FOOTWEAR CASES, BUT IS REPORTED TO BE 34 PERCENT. IF THIS FIGURE IS USED TO RECALCULATE THE SUBSIDY BENEFIT DUE TO PREFERENTIAL LIMITED OFFICIAL USE

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FINANCING, THE SUBSIDY BENEFIT ON PREFERENTIAL FINANCING IS 2.38 PERCENT, AS OPPOSED TO 0.8 PERCENT USING THE 19.2 PERCENT RATE. OUR FINAL COUNTERVAILING DUTY RATE ON SCISSORS AND SHEARS WOULD THEREFORE BE 16.9 PERCENT.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO REVIEW WITH YOU OUR FINDINGS ON THE COTTON YARN CASE BEFORE PUBLISHING OUR FINAL NOTICE, WHICH WILL OCCUR ON APPROXIMATELY MARCH 15, 1977. AFTER REVIEWING YOUR SUBMISSIONS AND MAKING APPROPRIATE ADJUSTMENTS TO REFLECT TREASURY'S VIEW ON HOW THE CALCULATIONS SHOULD BE MADE, WE ARRIVE AT A WEIGHTED AVERAGE OF 21.4 PERCENT.

THE IPI INCENTIVE WAS DETERMINED TO BE 7.80 PERCENT. INDIVIDUAL FIRMS HAD PERCENTAGES THAT RANGED FROM A LOW OF 6.74 PERCENT TO A HIGH OF 11.38 PERCENT. THE ICM INCENTIVE WAS DETERMINED TO BE 9.30 PERCENT, AND IS BASED ON INDIVIDUAL COMPANY PERCENTAGES RANGING FROM 7.17 PERCENT TO 10.13 PERCENT. THE INCOME TAX INCENTIVE

WAS DETERMINED TO BE .27 PERCENT, BASED ON INDIVIDUAL
COMPANY PERCENTAGES RANGING FROM 0 TO 1.15 PERCENT.
THE INCENTIVE FOR PREFERENTIAL FINANCING WAS DETERMINED
TO BE 4.00 PERCENT. INDIVIDUAL COMPANY PERCENTAGES RANGED

FROM 3.02 PERCENT TO 5.74 PERCENT, AND ARE BASED ON A
RECALCULATION OF THE SUBSIDY ELEMENT AS A RESULT OF INFOR-
MATION THAT THE COMMERCIAL INTEREST RATE IS NOW 34 PER-
CENT, INSTEAD OF 19.2 PERCENT. SHOULD ADDITIONAL EVIDENCE
LEAD TO A FURTHER MODIFICATION OF THE COMMERCIAL INTEREST
RATE USED IN THE CALCULATION, WE WILL OF COURSE ADJUST
THE COUNTERVAILING DUTY RATE.

SINCERELY YOURS,

PETER O. SUCHMAN
DEPUTY ASSISTANT SECRETARY
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(TARIFF AFFAIRS)
END TEXT

EMBASSY IS REQUESTED TO GIVE TEXT OF LETTER TO
DR. DORNELLES.

2. EMBASSY WILL BE INFORMED OF DATE OF PUBLICATION OF
FEDERAL REGISTER NOTICE OF FINAL AFFIRMATIVE COUNTER-
VAILING DUTY DETERMINATION ON COTTON YARN.
VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COUNTERVAILING DUTIES, INVESTIGATIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 10-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: MCJONES
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Executive Order: N/A
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Litigation History:
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